

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Port Sanilac	County Sanilac
Audit Date 6/30/05	Opinion Date 9/23/05	Date Accountant Report Submitted to State: 12/28/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

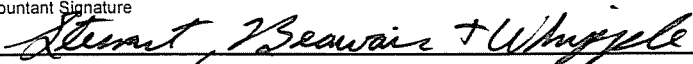
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			
Street Address 1979 Holland Avenue	City Port Huron	State MI	ZIP 48060
Accountant Signature 		Date 12/28/05	

VILLAGE OF PORT SANILAC
Sanilac County, Michigan

ANNUAL FINANCIAL REPORT
and Supplementary Information

FOR THE YEAR ENDED
JUNE 30, 2005

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



VILLAGE OF PORT SANILAC, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the President and
Members of the Village Council
Village of Port Sanilac, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Port Sanilac's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the Village of Port Sanilac, Michigan prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan as of June 30, 2005, and the respective changes in financial position-modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 23, 2005, on our consideration of the Village of Port Sanilac's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of our testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 9, and schedules of budgetary comparisons on pages 42 and 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Port Sanilac, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

September 23, 2005

MANAGEMENT DISCUSSION AND ANALYSIS

This section of the Village of Port Sanilac's annual financial report presents the Village's financial performance during the fiscal year that ended on June 30, 2005 with the limitations of the Village's modified cash basis of accounting. Please read it in conjunction with the Village's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

The Village's total expense exceeded total revenues on the modified cash basis of accounting by \$(24,397) for the year, resulting in a decrease in total net assets of 1.3 percent over the previous year.

The Village participated in the Michigan Drinking Water Revolving Fund during the year by drawing down the final \$153,658 to fund water system improvements.

The Village's General fund ended the year with a fund balance of \$136,668, which represents approximately 26 percent of reoccurring expenditures of the general fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

Report Components –

The annual report consists of four parts as follows:

Basic Financial Statements

Government-Wide Financial Statements: The Statement of Net Assets and the Statement of Activities (on pages 10-12) provide information about the activities of the Village government-wide and present a longer-term view of the Village's finances.

Fund Financial Statements: Fund financial statements (starting on page 13) focus on the individual parts of the Village government. Fund financial statements also report the Village's operations in more detail than the government-wide statements by providing information about the Village's most significant ("major") funds. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. For proprietary activities, these statements offer short-term and long-term financial information about the activities the Village operates like businesses, such as the water, sewer, and trash services.

Notes to the Financial Statements: The notes to the financial statements are an integral part of the government-wide and fund financial statements and provide expanded explanation and detail regarding the information reported in the statements.

Required Supplementary Information: This Management's Discussion and Analysis and the General fund Budgetary Comparison Schedule (starting on page 42) represent financial information required by GASB to be presented. Such information provide users of this report with additional data that supplements the government-wide statements, fund financial statements, and notes (referred to as "the basic financial statements").

Other Supplementary Information: This part of the annual report (starting on page 44) includes optional financial information such as combining statements for nonmajor funds (which are added together and shown in the fund financial statements in a single column) and budget comparisons for special revenue funds. This other supplemental financial information is provided to address certain specific needs of various users of the Village's annual report.

Basis of Accounting

The Village has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the Village's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Reporting the Village as a Whole

The Villages Reporting Entity Presentation

The annual report includes all activities for which the Village Council is fiscally responsible. These activities defined as the Village's reporting entity, are operated as the primary government and other separate legal entities that are included as component units.

The Government-Wide Statement of Net Assets and the Statement of Activities

Our financial analysis of the Village as a whole begins on page 10. The government-wide financial statements are presented on pages 10 and 11. One of the most important questions asked about the Village's finances is, "is the Village as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Village as a whole and about its activities in a way that helps answer this question. These statements include all of the Village's assets and liabilities resulting from the use of the modified cash basis of accounting.

These two statements report the Village's net assets and changes in them. Keeping in mind the limitations of the modified cash basis of accounting, you can think of the Village's net assets the difference between assets and liabilities as one way to measure the Village's financial health or financial position. Over time, increases or decreases in the Village's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Village's sales tax base and the condition of the Village's roads, to assess the overall health of the Village.

In the Statement of Net Assets and the Statement of Activities, we divide the Village into three kinds of activities:

- *Governmental activities.* Most of the Village's basic services are reported here, including the police, fire, general administration, streets, parks and recreation. Property taxes, fees, and state funds finance most of these activities.
- *Business-type activities.* The Village charges a fee to customers to help it cover all or most of the cost of certain services it provides. The Village's water, sewer, and sanitation systems are reported here.

- *Component units.* Although separate, the Downtown Development Authority and Port Authority (Harbor) are important because the Village is financially accountable for them. Separate financial statements are not issued for the component units; they are included in the financial statements as discrete columns.

Fund Financial Statements

The fund financial statements provide more detailed information about the Village's most significant funds; not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Village Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and other revenues.

The Village has three kinds of funds:

- **Governmental funds** – Most of the Village's basic services are reported in governmental funds (all funds except water, sewer, trash, and internal service), which focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using the current financial resources measurement focus which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Village's general government operations and the basic services it provides. We describe the relationship (or difference) between governmental activities and governmental funds in reconciliation schedules (Statement of Net Assets and Statement of Activities) on pages 14 and 16.
- **Proprietary Funds** – Proprietary Funds use the economic resources measurement focus, which is the same type used by private business. The Village maintains two types of proprietary funds.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for the activities of the water, sewer, and trash services.

Internal Service Funds are an accounting device used to accumulate and allocate cost internally among the Village's various functions. The Village uses an internal service fund to account for the activities of its special equipment fund.

Because these services predominantly benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary financial statements provide separate information for the water, sewer, and trash funds, which are considered major funds of the Village. The Village's Internal service fund is presented in the proprietary fund financial statements in the governmental activities – Internal Service Fund column.

- **Fiduciary Funds** – Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Village's own programs. The accounting used for the fiduciary fund is much like that used for proprietary funds.

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net Assets – Modified Cash Basis –

The Village's combined net assets are \$1,928,791. Our analysis below focuses on the net assets (Table 1) of the Village's governmental and business-type activities.

Table 1

Net Assets (Modified Cash Basis) of Governmental and Business-type Activities

	Governmental Activities		Business-type Activities		Total Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current and other assets	\$ 407,763	\$ 335,158	\$ 515,303	\$ 473,749	\$ 923,066	\$ 808,907
Capital Assets – net	<u>331,640</u>	<u>364,344</u>	<u>2,688,611</u>	<u>2,759,313</u>	<u>3,020,251</u>	<u>3,123,657</u>
Total Assets	<u>739,403</u>	<u>699,502</u>	<u>3,203,914</u>	<u>3,233,062</u>	<u>3,943,317</u>	<u>3,932,564</u>
Long-term debt outstanding	67,345	7,331	1,922,548	1,996,206	1,989,893	2,003,537
Other liabilities	-	-	236	236	236	236
Total liabilities	<u>67,345</u>	<u>7,331</u>	<u>1,922,784</u>	<u>1,996,442</u>	<u>1,990,129</u>	<u>2,003,773</u>
Net Assets:						
Invested in capital assets, net of debt	331,640	364,344	766,063	763,107	1,097,703	1,127,451
Restricted	-	-	476,073	537,143	476,073	537,143
Unrestricted	<u>340,418</u>	<u>327,827</u>	<u>38,994</u>	<u>(63,630)</u>	<u>379,412</u>	<u>264,197</u>
Total Net Assets	<u>\$ 672,058</u>	<u>\$ 692,171</u>	<u>\$ 1,281,130</u>	<u>\$ 1,236,620</u>	<u>\$ 1,953,188</u>	<u>\$ 1,928,791</u>

Governmental Activities –

Governmental activities for the Village include four major activities: General Government, Public Safety, Public Works and Parks/Recreation. General government includes the Legislative, Administrative, and Clerk departments. Public safety includes the police and fire departments. Public works includes primarily the Department of Public Works and building and maintenance of the major and local roads. The Village Parks and Recreation department, South Ramp, and Bark Shanty Community Center comprise the Parks/Recreation activity.

The largest revenue for governmental activities is the general operating property tax.

State shared revenue was \$97,847 for 2005. The State of Michigan collects sales tax and redistributes a portion of these collections to local jurisdictions. State revenue sharing is a major source of revenue for the Village. It is somewhat volatile since it fluctuates with the economy and the legislature's appropriation.

To assist in maintenance and repair of the road system, the Village receives Michigan Transportation Fund money that accounted for \$51,716 listed under program revenues. This money varies from year to year based on state revenues at the gasoline pumps.

Table 2 below presents the cost of each of the Village programs; general government, public safety, public works and recreation and cultural, and each program's net cost. The net cost shows the financial burden that was placed on the Village's general fund (primary from property tax and State shared revenue) by each of these functions.

Table 2

Governmental Activities

	Total cost of Services		Net Cost of Services	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
General Government	115,949	117,976	103,484	109,695
Public Safety	134,976	170,140	76,457	114,186
Public Works	171,912	193,402	108,333	135,886
Recreation and Cultural	<u>20,473</u>	<u>20,715</u>	<u>9,046</u>	<u>19,715</u>
Totals	<u>\$ 443,310</u>	<u>\$ 502,233</u>	<u>\$ 297,320</u>	<u>\$ 379,482</u>

Business-type Activities

The Village has three business-type activities – water, sewer and trash. Revenues of these activities (see Table 3) decreased net assets by \$44,510.

Table 3

Changes in Net Assets of Business-type Activities

	<u>2004</u>	<u>2005</u>
Revenues –		
Charges for Services	\$ 310,393	\$ 342,928
Other	<u>66,522</u>	<u>68,111</u>
Total Revenues	<u>376,915</u>	<u>411,039</u>
Expenses –		
Water, sewer, trash	<u>264,590</u>	<u>430,549</u>
Net operating income	112,325	(19,510)
Transfers	(<u>27,101</u>)	(<u>25,000</u>)
Increase in Net Assets	<u>\$ 85,224</u>	<u>\$ (44,510)</u>

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

As the Village completed the year, its general governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$264,806.

General Fund Budgetary Highlights

There were no amendments by the Village Council to the original budget passed in June 2005. Even though the budget is passed by the Village Council prior to the beginning of the fiscal year, all expenditures are reviewed and approved as they occur through out the year. During the budget process the Council discusses major projects proposed for the upcoming year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the Village had a book value of \$3,123,657 invested in a broad range of capital assets, including police, fire and DPW equipment, buildings, park facilities, roads, and water and sewer lines. Refer to Table 4 below for a schedule showing the Capital Assets at year ended June 30, 2005 for both the Governmental and the Business-type activities. There is also a total column for the Total Primary Government.

Table 4

Capital Assets at Year End (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Land and land improvements	\$ 12,000	\$ 12,000	\$ -	\$ -	\$ 12,000	\$ 12,000
Construction in progress	-	-	1,947,454	-	1,947,454	-
Buildings & Improvements	205,536	194,300	-	-	205,536	194,300
Machinery & Equipment	49,205	53,185	9,827	8,041	59,032	61,226
Vehicles	50,895	33,573	-	-	50,895	33,573
Improvements other than buildings	14,004	13,286	-	-	14,004	13,286
Streets	-	58,000	-	-	-	58,000
Water & Sewer Systems	-	-	731,330	2,751,272	731,330	2,751,272
	<u>\$ 331,640</u>	<u>\$ 364,344</u>	<u>\$ 2,688,611</u>	<u>\$ 2,759,313</u>	<u>\$ 3,020,251</u>	<u>\$ 3,123,657</u>

The major addition to capital assets was the water system improvement project, which had costs of \$1,943,147 in construction in progress as of June 30, 2004, and was completed in 2005 for an additional \$146,688, and street construction of \$58,000.

Debt

At year end the Village had a \$1,996,206 obligation to the State of Michigan through participation in the Drinking Water Revolving Fund through which the Department of Environmental Quality Bonds have been sold in the amount of \$2,135,000.

More detailed information about the Village's long-term liabilities is presented in Note 6 of Notes to Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Village of Port Sanilac is primarily a resort community located in Sanilac County, Michigan. The Village is on Lake Huron and is in proximity to the Detroit metropolitan area with several major roadways, including Interstate Highway 94.

In fiscal year 2005, the general fund had a surplus of \$12,376. The current unreserved fund balance for the general fund is \$136,668. The \$136,668 represents approximately 38% of total expenditures of the General Fund for 2005. The Village relies heavily on property taxes and operated at the state-authorized tax rate limit after application of Proposal A and Headlee.

The Village has adopted a balanced budget for fiscal year 2006. The Village's elected and appointed officials considered many factors when setting the 2006 budget, including tax rates and fees that will be charged for the Village's activities. The expenditures budgeted for the 2006 general fund increased \$366 from fiscal year 2005. The revenue from property taxes for the general fund was budgeted at \$173,718 or about the same as last year's collection. The uncertainty of the State Revenue Sharing appropriation decreased 17% from fiscal year 2005 levels, which is a concern for the Village.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional financial information, contact James Matson, Village Treasurer, by mail at 46 N. Ridge Street, P.O. Box 328, Port Sanilac, MI 48469 or by phone at 810-622-9963.

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005

	Primary Government			
	Governmental Activities	Business Type Activities	Total	Component Units
ASSETS:				
Cash and cash equivalents	\$ 252,186	\$ 292,251	\$ 544,437	\$ 102,088
Investments	76,208	163,154	239,362	71,643
Due from state	17,029	-	17,029	
Internal balances	21,196	(21,196)	-	
Due from fiduciary funds	102	-	102	-
Due from component unit	7,977	-	7,977	-
Due from primary government	-	-	-	236
Advance from other funds	(39,540)	39,540	-	
Restricted Assets -				
Investments	-	-	-	50,000
Capital assets (net of accumulated depreciation)				
Assets not being depreciated	12,000	-	12,000	37,000
Assets being depreciated	352,344	2,759,313	3,111,657	686,851
Total Assets	<u>699,502</u>	<u>3,233,062</u>	<u>3,932,564</u>	<u>947,818</u>
LIABILITIES:				
Due to component units	-	236	236	-
Due to primary government	-	-	-	7,977
Due to other governmental units	-	-	-	4,900
Non-current liabilities				
Due within one year	-	80,000	80,000	22,781
Due in more than one year	7,331	1,916,206	1,923,537	40,000
Total Liabilities	<u>7,331</u>	<u>1,996,442</u>	<u>2,003,773</u>	<u>62,781</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	364,344	763,107	1,127,451	663,851
Restricted				
Debt Service	-	65,416	65,416	-
Acquisition/construction of capital assets	-	471,727	471,727	-
Unrestricted	<u>327,827</u>	<u>(63,630)</u>	<u>264,197</u>	<u>208,309</u>
Total Net Assets	<u>\$ 692,171</u>	<u>\$ 1,236,620</u>	<u>\$ 1,928,791</u>	<u>\$ 872,160</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 117,976	\$ 8,281	\$ -	\$ -
Public Safety	170,140	40,853	15,101	-
Public Works	193,402	5,800	51,716	-
Recreation and Culture	20,715	1,000	-	-
Total governmental activities	<u>502,233</u>	<u>55,934</u>	<u>66,817</u>	<u>-</u>
Business type activities				
Water	238,187	216,637	-	-
Sewer	112,620	49,233	-	-
Trash	79,742	77,058	-	-
Total business type activities	<u>430,549</u>	<u>342,928</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>932,782</u>	<u>398,862</u>	<u>66,817</u>	<u>-</u>
Component Units				
Downtown Development Authority	94,272	-	-	-
Port Authority (Harbor)	<u>439,055</u>	<u>384,251</u>	<u>-</u>	<u>-</u>
Total Component Units	<u>533,327</u>	<u>384,251</u>	<u>-</u>	<u>-</u>

General revenues:

Property taxes - primary government

Property taxes - DDA

Grants and contribution not -
restricted to specific programs

Unrestricted investment income

Transfers

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Change in Net Assets

Primary Government		Total	Component Units
Governmental Activities	Business Type Activities		
\$(109,695)	\$ -	\$(109,695)	\$ -
(114,186)	-	(114,186)	-
(135,886)	-	(135,886)	-
(19,715)	-	(19,715)	-
<u>(379,482)</u>	<u>-</u>	<u>(379,482)</u>	<u>-</u>
-	(21,550)	(21,550)	-
-	(63,387)	(63,387)	-
-	(2,684)	(2,684)	-
<u>-</u>	<u>(87,621)</u>	<u>(87,621)</u>	<u>-</u>
<u>(379,482)</u>	<u>(87,621)</u>	<u>(467,103)</u>	<u>-</u>
-	-	-	(94,272)
-	-	-	(54,804)
<u>-</u>	<u>-</u>	<u>-</u>	<u>(149,076)</u>
268,904	63,789	332,693	-
-	-	-	70,617
97,847	-	97,847	22,482
7,844	4,322	12,166	1,125
25,000	(25,000)	-	-
<u>399,595</u>	<u>43,111</u>	<u>442,706</u>	<u>94,224</u>
20,113	(44,510)	(24,397)	(54,852)
<u>672,058</u>	<u>1,281,130</u>	<u>1,953,188</u>	<u>927,012</u>
<u>\$ 692,171</u>	<u>\$ 1,236,620</u>	<u>\$ 1,928,791</u>	<u>\$ 872,160</u>

VILLAGE OF PORT SANILAC, MICHIGAN

BALANCE SHEET - MODIFIED CASH BASIS

GOVERNMENTAL FUNDS

JUNE 30, 2005

	General	Other Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Assets:			
Cash and cash equivalents	\$ 48,857	\$ 137,201	\$ 186,058
Investments	33,837	35,639	69,476
Due from state	8,663	8,366	17,029
Due from other funds	37,954	620	38,574
Due from component unit	7,977	-	7,977
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 137,288</u>	<u>\$ 181,826</u>	<u>\$ 319,114</u>
Liabilities:			
Due to other funds	\$ 620	\$ 14,148	\$ 14,768
Advance from other funds	-	39,540	39,540
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>620</u>	<u>53,688</u>	<u>54,308</u>
Fund Balances:			
Unreserved -			
Undesignated -			
General Fund	136,668	-	136,668
Special Revenue Funds	-	128,138	128,138
Total Equity	<u>136,668</u>	<u>128,138</u>	<u>264,806</u>
Total Liabilities and Fund Equity	<u>\$ 137,288</u>	<u>\$ 181,826</u>	<u>\$ 319,114</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
JUNE 30, 2005**

Fund Balances - total governmental funds	\$	264,806
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Capital assets		898,036
Accumulated depreciation	(566,934)
Internal Service Fund used by management to charge cost of the City's motor pool activities. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.		
		103,594
Long - term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Accrued compensated absences	(7,331)
Net Assets of governmental activities	\$	<u>692,171</u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	General	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 180,489	\$ 88,415	\$ 268,904
Intergovernmental -			
State	97,847	51,716	149,563
Local	15,650	-	15,650
Charges for services	17,669	-	17,669
Fines and forfeits	3,512	-	3,512
Interest and rent	1,520	6,324	7,844
Other	29,865	4,339	34,204
Total Revenues	<u>346,552</u>	<u>150,794</u>	<u>497,346</u>
Expenditures:			
Current -			
General Government	116,439	-	116,439
Public Safety	152,669	-	152,669
Public Works	89,822	181,097	270,919
Recreation and Cultural	3,246	16,548	19,794
Total Expenditures	<u>362,176</u>	<u>197,645</u>	<u>559,821</u>
Excess of revenues over (under) expenditures	<u>(15,624)</u>	<u>(46,851)</u>	<u>(62,475)</u>
Other Financing Sources (Uses):			
Transfers in	28,000	-	28,000
Transfers out	-	(3,000)	(3,000)
Total Other Financing Sources (Uses)	<u>28,000</u>	<u>(3,000)</u>	<u>25,000</u>
Excess of revenues and other sources over (under) expenditures and other uses	12,376	(49,851)	(37,475)
Fund Balances at beginning of year	<u>134,292</u>	<u>230,029</u>	<u>364,321</u>
Prior period adjustment	<u>(10,000)</u>	<u>(52,040)</u>	<u>(62,040)</u>
Fund Balance at beginning of year, restated	<u>124,292</u>	<u>177,989</u>	<u>302,281</u>
Fund Balances at end of year	<u><u>\$ 136,668</u></u>	<u><u>\$ 128,138</u></u>	<u><u>\$ 264,806</u></u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
JUNE 30, 2005**

Net change in fund balances - total governmental funds	\$(37,475)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	74,092
Depreciation expense	(29,306)
<p>Internal service funds used by management to charge costs of the City's motor pool activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.</p>	
	14,828
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds</p>	
Increase in accrued compensated absences	<u>(2,026)</u>
Change in net assets of governmental activities	<u><u>\$ 20,113</u></u>

The notes to the financial statements are an integral part of this statement.

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities Internal Service Fund
	Water	Sewer	Trash	Total	
ASSETS:					
Current Assets:					
Cash and cash equivalents	\$ 59,106	\$ 228,701	\$ 4,444	\$ 292,251	\$ 66,128
Investment	15,427	128,187	19,540	163,154	6,732
	<u>74,533</u>	<u>356,888</u>	<u>23,984</u>	<u>455,405</u>	<u>72,860</u>
Noncurrent Assets:					
Advance to other funds	-	39,540	-	39,540	-
Capital assets, net of accumulated depreciation	2,153,622	605,691	-	2,759,313	33,242
	<u>2,153,622</u>	<u>645,231</u>	<u>-</u>	<u>2,798,853</u>	<u>33,242</u>
Total Assets	<u>2,228,155</u>	<u>1,002,119</u>	<u>23,984</u>	<u>3,254,258</u>	<u>106,102</u>
LIABILITIES:					
Current Liabilities:					
Due to other funds	242	20,954	-	21,196	2,508
Due to component unit	236	-	-	236	-
Bonds payable (current portion)	80,000	-	-	80,000	-
	<u>80,478</u>	<u>20,954</u>	<u>-</u>	<u>101,432</u>	<u>2,508</u>
Long-Term Liabilities (less current portion):					
Bonds payable	1,916,206	-	-	1,916,206	-
Total Liabilities	<u>1,996,684</u>	<u>20,954</u>	<u>-</u>	<u>2,017,638</u>	<u>2,508</u>
NET ASSETS:					
Investment in capital assets, net	157,416	605,691	-	763,107	33,242
Restricted for:					
Debt Service	65,416	-	-	65,416	-
Improvements	190,214	281,513	-	471,727	-
Unrestricted					
Undesignated	(181,575)	93,961	23,984	(63,630)	70,352
Total Net Assets	<u>\$ 231,471</u>	<u>\$ 981,165</u>	<u>\$ 23,984</u>	<u>\$ 1,236,620</u>	<u>\$ 103,594</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - MODIFIED CASH BASIS PROPRIETARY FUNDS FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Trash	Total	
Operating Revenues:					
Charges for services -					
Quarterly fees	\$ 49,883	\$ 44,430	\$ 77,058	\$ 171,371	\$ -
Tap-in fees	2,153	3,030	-	5,183	-
Equipment rental charges	-	-	-	-	44,864
Other	414	1,773	-	2,187	6,359
	<u>52,450</u>	<u>49,233</u>	<u>77,058</u>	<u>178,741</u>	<u>51,223</u>
Operating Expenses:					
Personnel services -					
Salaries and wages	24,161	12,871	-	37,032	2,752
FICA	1,848	985	-	2,833	211
Hospitalization	8,017	9,517	-	17,534	-
Other fringe benefits	17,580	10,404	-	27,984	363
Supplies	8,809	3,898	-	12,707	8,917
Other services and charges -					
Contracted services	2,431	3,595	79,382	85,408	250
Utilities	12,509	5,914	-	18,423	-
Insurance	1,284	533	-	1,817	6,181
Repairs and maintenance	50,563	22,192	-	72,755	7,062
Equipment rental	5,999	5,149	-	11,148	-
Depreciation	49,548	26,438	-	75,986	10,599
Other	6,200	11,124	360	17,684	471
	<u>188,949</u>	<u>112,620</u>	<u>79,742</u>	<u>381,311</u>	<u>36,806</u>
Operating Income (Loss)	<u>(136,499)</u>	<u>(63,387)</u>	<u>(2,684)</u>	<u>(202,570)</u>	<u>14,417</u>
Non-Operating Revenues:					
Current property tax - improvements	-	63,789	-	63,789	-
Water improvement charges	43,883	-	-	43,883	-
DWRF debt charges	120,304	-	-	120,304	-
Interest earned	1,016	2,896	410	4,322	411
Interest expenses	(49,238)	-	-	(49,238)	-
	<u>115,965</u>	<u>66,685</u>	<u>410</u>	<u>183,060</u>	<u>411</u>
Net Income Before Transfers	(20,534)	3,298	(2,274)	(19,510)	14,828
Transfers:					
Transfers in (out)	(9,000)	(9,000)	(7,000)	(25,000)	-
Net Income (Loss)	(29,534)	(5,702)	(9,274)	(44,510)	14,828
Net Assets at beginning of year	<u>261,005</u>	<u>986,867</u>	<u>33,258</u>	<u>1,281,130</u>	<u>88,766</u>
Net Assets end of year	<u>\$ 231,471</u>	<u>\$ 981,165</u>	<u>\$ 23,984</u>	<u>\$ 1,236,620</u>	<u>\$ 103,594</u>

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Business Type Activities-Enterprise Funds				Governmental Activities
	Water	Sewer	Trash	Total	Internal Service Funds
Cash Flows From Operating Activities:					
Cash receipts from customers	\$ 52,450	\$ 49,233	\$ 77,058	\$ 178,741	\$ -
Cash receipts from interfund services	-	-	-	-	51,223
Cash payments to suppliers	(115,240)	(73,311)	(79,742)	(268,293)	(23,455)
Cash payments to employees	(24,161)	(12,871)	-	(37,032)	(2,752)
Net Cash Provided (Used) by Operating Activities	(86,951)	(36,949)	(2,684)	(126,584)	25,016
Cash Flows From Noncapital Financing Activities:					
Change in due from other funds	-	22,500	-	22,500	-
Change in due to other funds	-	7,064	-	7,064	-
Operating transfers out	(9,000)	(9,000)	(7,000)	(25,000)	-
Net Cash Provided (Used) by Non-Capital Financing Activities	(9,000)	20,564	(7,000)	4,564	-
Cash Flows From Capital and Related Financing Activities:					
Property taxes	-	63,789	-	63,789	-
Improvement charges	43,883	-	-	43,883	-
DWRF debt charges	120,304	-	-	120,304	-
Bond proceeds	153,658	-	-	153,658	-
Gain on fixed assets	-	-	-	-	5,049
Principal payments	(80,000)	-	-	(80,000)	-
Interest payments	(49,238)	-	-	(49,238)	-
Purchase of fixed assets	(146,690)	-	-	(146,690)	(3,565)
Net Cash Provided by Capital and Related Financing Activities	41,917	63,789	-	105,706	1,484
Cash Flows From Investing Activities:					
Interest earned	1,016	2,896	410	4,322	411
Net purchase of investments	(74)	(619)	(94)	(787)	(33)
Net Cash Provided (Used) by Investing Activities	942	2,277	316	3,535	378
Net Increase (Decrease) in Cash and Cash Equivalents for the year	(53,092)	49,681	(9,368)	(12,779)	26,878
Cash and Cash Equivalents at Beginning of Year	112,198	179,020	13,812	305,030	39,250
Cash and Cash Equivalents at End of Year	\$ 59,106	\$ 228,701	\$ 4,444	\$ 292,251	\$ 66,128
Reconciliation of Net Income (Loss) to Net Cash Provided (Used) by Operating Activities:					
Operating income (loss) for the year	\$(136,499)	\$(63,387)	\$(2,684)	\$(202,570)	\$ 14,417
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities -					
Depreciation	49,548	26,438	-	75,986	10,599
Net Cash Provided (Used) By Operating Activities	\$(86,951)	\$(36,949)	\$(2,684)	\$(126,584)	\$ 25,016

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

Agency
Funds

ASSETS:

Cash and cash equivalents

\$ 102

LIABILITIES:

Due to other funds

\$ 102

The accompanying notes are an integral part of these financial statements.

COMPONENT UNITS

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF NET ASSETS

DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 2005

	Downtown Development Authority	Port Authority (Harbor)	Totals
ASSETS			
Cash and cash equivalents	\$ 79,460	\$ 22,628	\$ 102,088
Investments	-	71,643	71,643
Due from primary government	236	-	236
Restricted Assets -			
Investments	-	50,000	50,000
Capital Assets (net of accumulated depreciation) -			
Assets not being depreciated	-	37,000	37,000
Assets being depreciated	-	686,851	686,851
	<u>79,696</u>	<u>868,122</u>	<u>947,818</u>
Total Assets			
LIABILITIES			
Current Liabilities			
Due to primary government	7,977	-	7,977
Due to other governmental units	4,900	-	4,900
Non-current liabilities			
Due within one year	-	22,781	22,781
Due in more than one year	-	40,000	40,000
	<u>12,877</u>	<u>62,781</u>	<u>75,658</u>
Total Liabilities			
NET ASSETS			
Investments in Capital Assets, net of related liabilities	-	663,851	663,851
Unrestricted	66,819	141,490	208,309
	<u>66,819</u>	<u>805,341</u>	<u>872,160</u>
Total net assets			

The accompanying notes are an integral part of these financial statements.

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF ACTIVITIES DISCRETELY PRESENTED COMPONENT UNITS FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Downtown Development Authority			
Governmental activities:			
General Government	\$ 94,272	\$ -	\$ -
Total Downtown Development Authority	<u>94,272</u>	<u>-</u>	<u>-</u>
Port Authority (Harbor)			
Business-Type activities:			
Public Safety	431,925	384,251	-
Interest on Long Term Liabilities	7,130	-	-
Total Port Authority (Harbor)	<u>439,055</u>	<u>384,251</u>	<u>-</u>
 Total Component Units	 <u>\$ 533,327</u>	 <u>\$ 384,251</u>	 <u>\$ -</u>

General Revenues:

Property taxes

Grants and contribution not restricted
to specific program

Unrestricted investment income

Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Net assets at end of year

The accompanying notes are an integral part of these financial statements.

	Net (Expense) Revenue and Change in Net Assets		
Capital Grants and Contribution	Downtown Development Authority	Port Authority (Harbor)	Total
\$ -	\$ (94,272)	\$ -	\$ (94,272)
-	(94,272)	-	(94,272)
-	-	(47,674)	(47,674)
-	-	(7,130)	(7,130)
-	-	(54,804)	(54,804)
\$ -	\$ (94,272)	\$ (54,804)	\$ (149,076)
	70,617	-	70,617
	7,366	15,116	22,482
	513	612	1,125
	78,496	15,728	94,224
	(15,776)	(39,076)	(54,852)
	82,595	844,417	927,012
\$	66,819	\$ 805,341	\$ 872,160

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting. This modified basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. Governments also have the option of following subsequent private-sector guidance for these business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Village of Port Sanilac is one of ten Villages in Sanilac County and is located within the boundaries of Sanilac Township. The Village operates under an elected Village Council which consists of a President and six Council members. The Village provides services to its residents in many areas including law enforcement, fire protection, water, sewer and recreation.

In accordance with the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 14 the reporting entity includes both the primary government and all of its "component units". The criteria established by GASB for determining the component units include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

DISCRETELY PRESENTED COMPONENT UNITS - The component units in the financial statements include the financial data of the Village of Port Sanilac Downtown Development Authority (DDA) and the Port Authority (Harbor). They are reported as discrete columns to emphasize that they are legally separate from the Village.

The Downtown Development Authority operates with not less than eight or more than twelve members plus the Chief Executive Officer of the Village of Port Sanilac. Board members are appointed by the Village President, subject to the approval of the governing body of the Village. The Downtown Development Authority was created to develop the Downtown District.

The Port Authority (Harbor) operates with seven members appointed by the Village Council. The Port Authority (Harbor) has full charge of all matters connected with the operation, supervision and maintenance of the harbor and the public facilities therein. The Port Authority (Harbor) was created in the interest of public safety for the better protection of life and property on the waters of the harbor of Port Sanilac and for the proper development and utilization of the harbor for the public benefit.

Separate financial statements are not issued for the discretely presented component units. The following notes include the discretely presented component units with the DDA operations similar to a Special Revenue Fund and the Port Authority (Harbor) similar to an Enterprise Fund.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

FISCAL YEAR ENDS – All of the Village Funds and Component Units operate and are reported on a June 30 year end with the exception of the Port Authority (Harbor) which operates and is reported as of December 31.

B. Government-wide and fund financial statements –

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation –

Measurement Focus -

In the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item b below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus, as applied to the modified cash basis of accounting, is used as appropriate

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

- b. All proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent, financial, or nonfinancial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

Basis of Accounting –

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental, business-like, and component unit activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements, proprietary fund statements, and the similar discretely presented component unit statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements, except for State of Michigan Act 51 revenue which is accrued.

If the Village utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

State shared revenue is all considered to be susceptible to accrual and therefore has been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Village reports the following major governmental funds:

General Fund – is the Village’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Village reports the following major proprietary funds:

Sewer Fund – is used to account for the operations that provide sanitary sewer service to the Village residents.

Water Fund – is used to account for the operations that provide water to the Village residents.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Trash Fund – is used to account for the operations that provide trash collection services to the Village residents.

Additionally, the Village reports the following fund types:

Internal Service Fund – is used to account for the financing of services by one department to other departments of the Village.

Special Revenue Funds – are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principal on-going operations. The principal operating revenues of the Enterprise Funds are charges to customers for sale, rent and services. Operating expenses for Enterprise Funds include costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, the unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Cash Equivalents and Investments –

Cash equivalents are short-term investments that are readily convertible to cash. Cash equivalents consist of savings accounts recorded at cost, which approximates fair value.

Investments consisting of certificates of deposit and investment trusts are carried at cost, which approximates fair value.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Interfund Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property Tax Levy –

Property taxes levied in July of the current year of the Village are treated as revenues in the current year.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives.

<u>Primary Government</u>	<u>Years</u>
Building/improvements	5-20 years
Utility Systems	50
Road Systems/Other	
Infrastructure	8-25
Equipment	3-20

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Compensated Absences –

Village employees are granted paid time off in varying amounts based on length of service which is fully vested when earned. Village employees are granted disability time off which can be accumulated to 240 hours maximum per employee. Upon termination, employees are paid fifty percent of their accumulated disability pay. Vacation is not paid out upon termination. All vested disability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-Term Obligations –

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity –

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgets –

Budgets are adopted on the modified cash basis. Annual appropriation budgets are adopted for the General and Special Revenue Funds.

The Village Treasurer and the Village Council Finance Committee prepare and submit their proposed operating budgets for the year commencing July 1. The budgets include proposed expenditures and resources to finance them.

Prior to July 1, the proposed budget is presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Resolution. After the budget is adopted, all amendments must be approved by the Village Council.

The Village's approved budgets were adopted at the activity level for the General Fund and at the function level (fund level) for the Special Revenue Funds. However, for control purposes all the budgets are maintained at the object (account) level.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted, or as amended by the Village Council, during the year.

Expenditures at these legally adopted levels in excess of the amount budgeted are a violation of the Budgeting Act. During the year ended June 30, 2005, the Village (primary government) incurred expenditures in the General Fund and Special Revenue Funds which were in excess of the amounts appropriated at the activity level for the General Fund and function (fund) level for the Special Revenue Funds as follows:

<u>Fund Type/Function/Activity</u>	<u>Final Budget</u>	<u>Expended</u>	<u>Variance</u>
Primary Government –			
General Fund –			
Public Safety –			
Fire Department	\$ 38,950	\$ 59,713	\$ 20,763
Law Enforcement	75,966	92,956	16,990
Special Revenue Funds –			
Major Street	38,700	55,596	16,896
Local Street	70,387	96,231	25,844
South Ramp	2700	3,095	395

VILLAGE OF PORT SANILAC, MICHIGAN
Sanilac County, Michigan

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY: - (cont'd):

Prior to June 30, the proposed budgets are presented to the Village Council. The Council holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Village Council Resolution.

The approved budgets of the Village were adopted for the General and Special Revenue Funds at the function level. These are the enacted levels under the State of Michigan Uniform Budgeting and Accounting Act and the legally adopted levels of the budget. State statutes do not require legally adopted budgets for debt service or capital projects funds.

Budgets are maintained throughout the year at the account level, to provide additional control in preventing over-expenditures at the legally adopted levels. Amendments at the function level for the General and Special Revenue Funds must be approved by the Village Council.

The Village does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year end.

Budget amounts are reported as originally adopted and as final amended by the Village Council, during the year.

Undesignated Fund Balance Deficit -

The Bark Shanty Community Center Fund had an undesignated fund balance deficit of \$9,212 at June 30, 2005.

Unrestricted Net Assets Deficit -

The Water Fund had an unrestricted net assets deficit of \$181,575 at June 30, 2005.

NOTE 3 - DEPOSITS AND INVESTMENTS:

The carrying amount of the Village Reporting Entity's deposits and investments at June 30, 2005 is as follows:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Cash on Hand –				
Petty Cash	\$ 150	\$ -	\$ 150	\$ 300
Deposits with Financial Institutions –				
Checking/Savings	550,263	102	101,938	652,303
Certificate of Deposit	233,386	-	46,624	280,010
	<u>783,649</u>	<u>102</u>	<u>148,562</u>	<u>932,313</u>
Investments –				
Investment Trust Funds	-	-	75,019	75,019
	<u>\$ 783,799</u>	<u>\$ 102</u>	<u>\$ 223,731</u>	<u>\$1,007,632</u>

VILLAGE OF PORT SANILAC, MICHIGAN
Sanilac County, Michigan

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

The following is a summary of the financial statement presentation of Deposits and Investments at June 30, 2005:

	<u>Primary Government</u>	<u>Fiduciary Fund</u>	<u>Component Unit</u>	<u>Reporting Entity</u>
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 150	\$ -	\$ 150	\$ 300
Cash in Checking/Savings	<u>550,263</u>	<u>102</u>	<u>101,938</u>	<u>652,303</u>
Total Cash and Cash Equivalents	<u>550,413</u>	<u>102</u>	<u>102,088</u>	<u>652,603</u>
Reported as Investment –				
Certificates of Deposit	233,386	-	46,624	280,010
Investment Trust Fund	<u>-</u>	<u>-</u>	<u>75,019</u>	<u>75,019</u>
Total Investments	<u>233,386</u>	<u>-</u>	<u>121,643</u>	<u>355,029</u>
	<u>\$ 783,799</u>	<u>\$ 102</u>	<u>\$ 223,731</u>	<u>\$ 1,007,632</u>

The Village's investment policy primary objectives are safety, liquidity, diversification and return on investment. The Village Treasurer is responsible for the investment program.

Custodial Credit Risk – is the risk that in the event of a bank failure, the Village's deposit or investments may not be returned. The Village's investment policy does not address credit risk.

Interest Rate Risk – is the risk that the market value of securities in the Village's portfolio will fall due to changes in market interest in market interest increases. The Village attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity in investing operating funds in a public investment pool.

Credit Risk – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation, State laws and Village policy limit the types of investments the Village can purchase.

Concentration of Credit Risk – is the risk of loss attributed to the magnitude of the Village's investment as a single issuer. The Village's policy specifies that investments will be diversified by security type and institution in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Deposits –

Act 217 PA 1982, as amended, authorizes the Village to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, by section 21.145 and 21,146 of the Michigan Compiled Laws.

VILLAGE OF PORT SANILAC, MICHIGAN
Sanilac County, Michigan

NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

As of June 30, 2005, the carrying amount of the Village deposits is \$932,313, and the bank balance is \$951,357. Of the bank balance, \$371,972 is covered by Federal Depository Insurance, with the remaining \$579,385 exposed to credit risk.

Investments –

Michigan Public Act 20 of 1994, as amended, authorizes the Village to invest surplus funds in bonds, securities and other direct obligations of the United States government or an agency or instrumentality of the United States; certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution only if the bank, savings and loan association or credit union is eligible to be a depository of funds belonging to the State; bankers' acceptances of the United States banks; commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation; investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the surplus funds investment pool act, 1982 PA 3657, 129.111 to 129.118.

As of December 31, 2004, the Village component unit (Harbor) had \$95,019 invested in the Exchange State Bank, an external investment pool. The fund was established to mainly invest in government securities. The fund complies with all the requirements of Act 20 of 1994, as amended.

The certificates of deposit and investment trust funds have been reported in the financial statements as investments even though several certificates of deposits do not have a maturity of more than 90 days from date of purchase and the investment trust funds have characteristics of demand deposit accounts in that the Village may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting these as investments is that it is the intent of the Village to reinvest the funds and not make regular withdrawals since the funds are part of the Village's pooled investment program.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 4 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS:

Interfund receivable and payable balances described as Due From and Due To Other Funds on the Statement of Assets and Liabilities Arising from Cash Transactions reflect amounts due from or owed to a particular fund by another fund of the Primary Government. Interfund receivable and payable balances described as Due From or Due To Primary Government or Component Units reflect amounts due from or due to either the Primary Government or Component Units. These amounts include only short-term obligations on open accounts, and not current portions of long-term loans. The composite of interfund balance at June 30, 2005 is as follows:

	<u>Receivable</u>	<u>Payable</u>
<u>Due To/From Other Funds:</u>		
<u>General Fund:</u>		
Agency Fund -		
Current Tax Fund	\$ 102	\$ -
Enterprise Fund -		
Water Fund	242	-
Sewer Fund	20,954	-
Special Revenue Funds -		
Local Street	7,238	-
Bark Shanty Community Center	6,910	620
Internal Service Fund -		
Equipment Fund	<u>2,508</u>	<u>-</u>
	<u>37,954</u>	<u>620</u>
<u>Enterprise Fund:</u>		
Water Fund -		
General Fund	-	242
Sewer Fund -		
General Fund	<u>-</u>	<u>20,954</u>
	<u>-</u>	<u>21,196</u>
<u>Internal Service Fund:</u>		
Equipment Fund -		
General Fund	<u>-</u>	<u>2,508</u>
<u>Agency Fund:</u>		
Current Tax Fund -		
General Fund	<u>-</u>	<u>102</u>
<u>Special Revenue Fund:</u>		
Bark Shanty Community Center -		
General Fund	620	6,910
Local Street -		
General Fund	<u>-</u>	<u>7,238</u>
	<u>620</u>	<u>14,148</u>
Total Primary Government	<u>\$ 38,574</u>	<u>\$ 38,574</u>
<u>Advances From/To Other Funds</u>		
Sewer Fund	39,540	-
General Fund (Parks)	-	10,000
Special Revenue Funds	-	29,540
Bark Shanty Community Center	<u>-</u>	<u>-</u>
	<u>\$ 39,540</u>	<u>\$ 39,540</u>
<u>Due to Component Unit:</u>		
Water Fund -		
DDA	-	236
General Fund	7,977	-

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 4 - INTERFUND RECEIVABLE AND PAYABLE BALANCES – (cont'd):

	<u>Receivable</u>	<u>Payable</u>
<u>Due From Primary Government:</u>		
DDA -		
Water Fund	236	-
General Fund	<u>-</u>	<u>7,977</u>
Total Reporting Entities	<u>\$ 8,213</u>	<u>\$ 8,213</u>

Interfund transfers for the year ended June 30, 2005 were as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Water Fund	\$ 9,000
General Fund	Sewer Fund	9,000
General Fund	Trash Fund	7,000
General Fund	Major Street Fund	1,500
General Fund	Local Street Fund	<u>1,500</u>
		<u>\$ 28,000</u>

In the General Fund there is a due to and a due from to the Bark Shanty Community Center. This is a result of the Recreation owing the Bark Shanty Community Center \$620, and the Bark Shanty Community Center owing law enforcement \$4,580. Therefore, there is a due to/due from also in the Bark Shanty Fund for these amounts.

NOTE 5 – CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2005 was as follows:

	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2005 <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 12,000	\$ -	\$ -	\$ 12,000
Total capital assets, not being depreciated	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Capital assets, being depreciated:				
Buildings and improvements	530,968	-	-	530,968
Improvement other than buildings	14,363	-	-	14,363
Machinery and equipment	154,100	16,092	1,296	168,896
Vehicles	266,887	-	-	266,887
Streets	-	58,000	-	58,000
Total capital assets being depreciated	<u>966,318</u>	<u>74,092</u>	<u>1,296</u>	<u>1,039,114</u>
Less accumulated depreciation for:				
Buildings and improvements	325,432	11,236	-	336,668
Improvements other than buildings	359	718	-	1,077
Machinery and equipment	104,895	10,629	(187)	115,711
Vehicles	215,992	17,322	-	233,314
Total accumulated depreciation	<u>646,678</u>	<u>39,905</u>	<u>(187)</u>	<u>686,770</u>
Total capital assets being depreciated, net	<u>319,640</u>	<u>34,187</u>	<u>(1,483)</u>	<u>352,344</u>
Governmental activities capital assets, net	<u>\$ 331,640</u>	<u>\$ 34,187</u>	<u>\$(1,483)</u>	<u>\$ 364,344</u>

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS – (cont'd):

	July 1, 2004 <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	June 30, 2005 <u>Balance</u>
Business Type Activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ 1,947,454	\$ _____	\$1,947,454	\$ _____
Capital assets, being depreciated:				
Utility Systems	1,455,272	2,094,142	-	3,549,414
Machinery and equipment	17,171	-	-	17,171
Total capital assets being depreciated	<u>1,472,443</u>	<u>2,094,142</u>	<u>-</u>	<u>3,566,585</u>
Less accumulated depreciation for:				
Utility Systems	723,942	74,200	-	798,142
Machinery and equipment	7,344	1,786	-	9,130
Total accumulated depreciation	<u>731,286</u>	<u>75,986</u>	<u>-</u>	<u>807,272</u>
Total capital assets being depreciated, net	<u>741,157</u>	<u>2,018,156</u>	<u>-</u>	<u>2,759,313</u>
Business activities capital assets, net	<u>\$ 2,688,611</u>	<u>\$2,018,156</u>	<u>\$ 1,947,454</u>	<u>\$ 2,759,313</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 4,827
Public Safety	18,271
Public Works	15,178
Recreation and Cultural	<u>1,629</u>
Total depreciation expense-governmental activities	<u>\$ 39,905</u>
Business-type activities:	
Sewer	\$ 26,438
Water	<u>49,548</u>
Total depreciation expense-business-type activities	<u>\$ 75,986</u>

Discretely Presented Component Units

Port Authority – Harbor. Activity for the Port Authority for the year ended December 31, 2004, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Land	\$ 37,000	\$ -	\$ -	\$ 37,000
Capital assets, being depreciated:				
Land and building improvements	22,062	-	-	22,062
Harbor	1,101,912	-	-	1,101,912
Equipment	50,617	-	188	50,429
	<u>1,174,591</u>	<u>-</u>	<u>188</u>	<u>1,174,403</u>

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 5 – CAPITAL ASSETS – (cont'd):

	Beginning Balance	Additions	Deletions	Ending Balance
Less accumulated depreciation for:				
Land and building improvements	7,723	1,561	-	9,284
Harbor	406,056	33,510	-	439,566
Equipment	<u>32,514</u>	<u>6,188</u>	-	<u>38,702</u>
	<u>446,293</u>	<u>41,259</u>	-	<u>487,552</u>
Net capital assets being depreciated	<u>728,298</u>	<u>(41,259)</u>	<u>(188)</u>	<u>686,851</u>
 Total capital assets, net	 <u>\$ 765,298</u>	 <u>\$(41,259)</u>	 <u>\$(188)</u>	 <u>\$ 723,851</u>

Depreciation expense for 2005 was \$41,249.

NOTE 6 – LONG-TERM LIABILITIES:

PRIMARY GOVERNMENT -

The following is a summary of changes in the long-term debt (including current portions) of the Primary Government for the year ended June 30, 2005:

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
<u>Governmental Activities:</u>					
Governmental Funds -					
Accrued sick and disability	\$ 5,305	\$ 2,026	\$ -	\$ 7,331	\$ -
Total Governmental Funds	<u>\$ 5,305</u>	<u>\$ 2,026</u>	<u>\$ -</u>	<u>\$ 7,331</u>	<u>\$ -</u>
 <u>Business-type Activities:</u>					
2003 Drinking Water Revolving Fund	<u>\$ 1,922,548</u>	<u>\$ 153,658</u>	<u>\$ 80,000</u>	<u>\$ 1,996,206</u>	<u>\$ 80,000</u>
Total Business-Type Activities	<u>1,922,548</u>	<u>153,658</u>	<u>80,000</u>	<u>1,996,206</u>	<u>80,000</u>
	<u>\$ 1,927,853</u>	<u>\$ 155,684</u>	<u>\$ 80,000</u>	<u>\$ 2,000,537</u>	<u>\$ 80,000</u>

Primary Government -

Significant details regarding outstanding long-term liabilities (including current portion) of the primary government are presented below:

Accrued Employee Sick and Disability Pay represents unpaid sick and disability due the employees of the Village upon termination of employment. As of June 30, 2005, the amount to be provided for accrued sick and disability pay was \$7,331.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 – LONG-TERM LIABILITIES – (cont'd):

In order to finance the cost of improvements, the Village of Port Sanilac has participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$2,135,000. Through this revolving fund the Village draws down cash as the capital project costs were required to be paid. The total cash drawn down as of June 30, 2005 was \$2,076,206 with a balance due of \$1,996,206.

Interest on the bonds shall accrue on the principal disbursed by the Drinking Water Revolving Fund to the Village from the date the principal is disbursed until paid, at the rate of 2.5% per annum, payable semi-annually. Principal payments began April 1, 2005 with amounts of \$80,000-\$135,000 due annually until April 1, 2024.

The annual requirements to pay the debt principal and interest outstanding on the Drinking Water Evolverment Fund are:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 80,000	\$ 49,113	\$ 129,113
2007	85,000	47,905	132,905
2008	85,000	45,780	130,780
2009	85,000	43,655	128,655
2010	90,000	41,530	131,530
2011-2015	480,000	173,026	653,026
2016-2020	575,000	108,526	683,526
2021-2024	516,206	32,495	548,701
	<u>\$ 1,996,206</u>	<u>\$ 542,030</u>	<u>\$ 2,538,236</u>

Component Unit –

The following is a summary of changes in long-term liabilities (including current portions) of the component unit for the year ended December 31, 2004:

	Balance January 1, 2004	Additions	Reductions	Balance December 31, 2004	Due Within One Year
Port Authority (Harbor):					
1992 Marina Facility Revenue Bonds	\$ 80,000	\$ -	\$ 20,000	\$ 60,000	\$ 20,000
Accrued sick & disability	2,778	-	827	1,951	-
	<u>\$ 82,778</u>	<u>\$ -</u>	<u>\$ 20,827</u>	<u>\$ 61,951</u>	<u>\$ 20,000</u>

Significant details regarding outstanding long-term liabilities of the component unit Port Authority (Harbor) and Downtown Development Authority are presented below:

Accrued Employee Sick and Disability pay represents unpaid sick and disability due the employees of the Harbor upon termination of employment. As of December 31, 2004 the amount to be provided for accrued sick and disability pay was \$1,951.

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 - LONG-TERM LIABILITIES – (cont'd):

On October 13, 1992, the Village of Port Sanilac issued \$225,000 in Marina Facility Revenue Bonds to finance the cost of improving and enlarging the public marina facility located in Port Sanilac Harbor.

The bonds payable at year end of \$60,000, are due in annual installments of \$20,000, with interest of 6.75% to 6.80%, payable semi-annually.

Bonds or portions of bonds in multiples of \$5,000 maturing in the years 2005 through 2007, shall be subject to redemption prior to maturity, at the option of the Village, on any interest date at par value and accrued interest to the date fixed for redemption.

The annual requirements to pay the debt principal and interest outstanding on the Marina facility revenue bonds are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	20,000	4,070	24,070
2006	20,000	2,720	22,720
2007	<u>20,000</u>	<u>1,360</u>	<u>21,360</u>
	<u>\$ 60,000</u>	<u>\$ 8,150</u>	<u>\$ 68,150</u>

NOTE 7 - DESIGNATED FUND BALANCE:

The Designated Fund Balance in the General Fund represents amounts designated by the Village Council to be expended for the following General Fund activities:

<u>Activity</u>	<u>Amount</u>
Law Enforcement	\$ 15,773
Fire Operating	3,499
Fire Truck	114,230
Fire Fighters	8,839
Department of Public Works	(54,703)
Recreation	(3,760)
	<u>\$ 83,878</u>

NOTE 8 – RESTRICTED NET ASSETS:

Primary Government –

Business-Type Activities -

Sewer	Property taxes for improvements	\$ 281,573
Water	Improvement charges	190,214
DWRF Debt charges		<u>65,416</u>
		<u>\$ 537,203</u>

VILLAGE OF PORT SANILAC, MICHIGAN
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 9 - EMPLOYEE PENSION PLAN:

Plan Description -

The Village of Port Sanilac participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple-employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The Village is required to contribute at an actuarially determined rate. The computed employer contribution rate for 2005 ranged from 14.25% to 25.57%. The contribution requirements of plan members and the Village are established and may be amended by the Village Council, depending on the MERS contribution program adopted by the Village.

Annual Pension Costs -

For the year ended June 30, 2005, the Village's annual pension cost of \$27,542 for MERS was equal to the Village's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year, (b) projected salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases, ranging from 0% to 8.66% per year, and (c) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-4. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years for positive unfunded liabilities and 10 years for negative unfunded liabilities.

Three-Year Trend Information

<u>Fiscal Period</u> <u>Ending</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2003	\$ 23,678	100%	\$ -
June 30, 2004	33,904	100	-
June 30, 2005	27,542	100	-

VILLAGE OF PORT SANILAC, MICHIGAN

NOTES TO COMBINED FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 9 - EMPLOYEE PENSION PLAN – (cont'd):

Schedule of Funding Progress

Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio (AAL) (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)(c)
December 31,	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)(c)
2002	\$ 164,254	\$ 421,978	\$ 257,724	39%	\$ 138,001	187%
2003	201,768	488,092	286,324	41	169,092	169
2004	245,787	550,862	305,075	45	182,658	167

NOTE 10 - DEFERRED COMPENSATION:

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors, nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Village has an obligation of due care in selecting the third party administrator. The Village believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

NOTE 11 – PRIOR PERIOD ADJUSTMENT:

Prior to the current year, the Village did not record an advance payable owed to the sewer fund on the General and Bark Shanty Community Center Funds Balance Sheet. During 2004/05, the amount was recorded, which resulted in a prior period adjustment of the beginning fund balance of \$10,000 for the General Fund (Recreation) and \$52,040 for the Bark Shanty Community Center Fund.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property taxes	\$ 172,619	\$ 172,619	\$ 180,489	\$ 7,870
Intergovernmental -				
State	60,000	60,000	97,847	37,847
Local	13,750	13,750	15,650	1,900
Charges for services	15,600	15,600	17,669	2,069
Fines and forfeits	1,000	1,000	3,512	2,512
Interest and rents	2,200	2,200	1,520	(680)
Other	15,100	15,100	29,865	14,765
Total Revenues	<u>280,269</u>	<u>280,269</u>	<u>346,552</u>	<u>66,283</u>
Expenditures:				
Current -				
General Government	141,000	141,000	116,439	24,561
Public Safety	114,916	114,916	152,669	(37,753)
Public Works	102,319	102,319	89,822	12,497
Recreation and Culture	3,600	3,600	3,246	354
Total Expenditures	<u>361,835</u>	<u>361,835</u>	<u>362,176</u>	<u>(341)</u>
Excess of revenues under expenditures	(81,566)	(81,566)	(15,624)	65,942
Other Financing Sources (Uses):				
Transfers in	<u>78,566</u>	<u>78,566</u>	<u>28,000</u>	<u>(50,566)</u>
Excess of revenues and other financing sources over expenditures	<u>(3,000)</u>	<u>(3,000)</u>	<u>12,376</u>	<u>15,376</u>
Fund Balance at beginning of year	134,292	134,292	134,292	-
Prior period adjustments	<u>(10,000)</u>	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>
Fund Balance at beginning of year, restated	<u>124,292</u>	<u>124,292</u>	<u>124,292</u>	<u>-</u>
Fund Balance at end of year	<u><u>121,292</u></u>	<u><u>121,292</u></u>	<u><u>136,668</u></u>	<u><u>15,376</u></u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS BUDGET AND ACTUAL - GENERAL FUND FOR THE YEAR ENDED JUNE 30, 2005

	Budget			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues:				
Property taxes	\$ 172,619	\$ 172,619	\$ 180,489	\$ 7,870
Intergovernmental -				
State	60,000	60,000	97,847	37,847
Local	13,750	13,750	15,650	1,900
Charges for services	15,600	15,600	17,669	2,069
Fines and forfeits	1,000	1,000	3,512	2,512
Interest and rents	2,200	2,200	1,520	(680)
Other	15,100	15,100	29,865	14,765
	<u>280,269</u>	<u>280,269</u>	<u>346,552</u>	<u>66,283</u>
Expenditures:				
General Government	209,000	209,000	188,641	20,359
Less: Reimbursement from other funds	(68,000)	(68,000)	(72,202)	4,202
	<u>141,000</u>	<u>141,000</u>	<u>116,439</u>	<u>24,561</u>
Public Safety -				
Fire department	38,950	38,950	59,713	(20,763)
Law enforcement	75,966	75,966	92,956	(16,990)
	<u>114,916</u>	<u>114,916</u>	<u>152,669</u>	<u>(37,753)</u>
Public Works -				
Department of public works	102,319	102,319	89,822	12,497
	<u>102,319</u>	<u>102,319</u>	<u>89,822</u>	<u>12,497</u>
Recreational and Cultural-				
Parks and recreation	3,600	3,600	3,246	354
	<u>3,600</u>	<u>3,600</u>	<u>3,246</u>	<u>354</u>
Total Expenditures	<u>361,835</u>	<u>361,835</u>	<u>362,176</u>	<u>(341)</u>
Excess of revenues under expenditures	(81,566)	(81,566)	(15,624)	65,942
Other Financing Sources:				
Transfers in	78,566	78,566	28,000	(50,566)
Excess of revenues and other financing over (under) expenditures	<u>(3,000)</u>	<u>(3,000)</u>	<u>12,376</u>	<u>15,376</u>
Fund Balance at beginning of year	134,292	134,292	134,292	
Prior Period Adjustment	(10,000)	(10,000)	(10,000)	-
Fund Balance at beginning of year, restated	<u>124,292</u>	<u>124,292</u>	<u>124,292</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 121,292</u>	<u>\$ 121,292</u>	<u>\$ 136,668</u>	<u>\$ 15,376</u>

SUPPLEMENTARY INFORMATION

VILLAGE OF PORT SANILAC, MICHIGAN
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005

	Special Revenue Funds					Total
	Major Street	Local Street	County Road	South Ramp	Bark Shanty Community Center	Nonmajor Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 5,350	\$ 625	\$ 87,070	\$ 7,538	\$ 36,618	\$ 137,201
Investments	17,955	10,756	-	6,928	-	35,639
Due from state	5,341	3,025	-	-	-	8,366
Due from other funds	-	-	-	-	620	620
Total Assets	<u>\$ 28,646</u>	<u>\$ 14,406</u>	<u>\$ 87,070</u>	<u>\$ 14,466</u>	<u>\$ 37,238</u>	<u>\$ 181,826</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Due to other funds	\$ -	\$ 7,238	\$ -	\$ -	\$ 6,910	\$ 14,148
Advance from other funds	-	-	-	-	39,540	39,540
Total Liabilities	-	7,238	-	-	46,450	53,688
Fund Balance:						
Unreserved - Undesignated	28,646	7,168	87,070	14,466	(9,212)	128,138
	<u>\$ 28,646</u>	<u>\$ 14,406</u>	<u>\$ 87,070</u>	<u>\$ 14,466</u>	<u>\$ 37,238</u>	<u>\$ 181,826</u>

VILLAGE OF PORT SANILAC, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Special Revenue Funds					Total Nonmajor Governmental Funds
	Major Street	Local Street	County Road	South Ramp	Bark Shanty Community Center	
Revenues:						
Taxes	\$ -	\$ 22,449	\$ 42,450	\$ 2,483	\$ 21,033	\$ 88,415
Intergovernmental -						
State Highway Act 51	33,018	18,698	-	-	-	51,716
Interest and rent	553	634		102	5,035	6,324
Other	69	70	4,200	-	-	4,339
Total Revenues	<u>33,640</u>	<u>41,851</u>	<u>46,650</u>	<u>2,585</u>	<u>26,068</u>	<u>150,794</u>
Expenditures:						
Current -						
Public Works	55,596	96,231	29,270	-	-	181,097
Recreation and Cultural	-	-	-	3,095	13,453	16,548
Total Expenditures	<u>55,596</u>	<u>96,231</u>	<u>29,270</u>	<u>3,095</u>	<u>13,453</u>	<u>197,645</u>
Excess of revenues over (under) expenditures	(21,956)	(54,380)	17,380	(510)	12,615	(46,851)
Other Financing (Uses):						
Transfers out	<u>(1,500)</u>	<u>(1,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,000)</u>
Excess of revenues over (under) expenditures and other uses	<u>(23,456)</u>	<u>(55,880)</u>	<u>17,380</u>	<u>(510)</u>	<u>12,615</u>	<u>(49,851)</u>
Fund Balances at beginning of year	52,102	63,048	69,690	14,976	30,213	230,029
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(52,040)</u>	<u>(52,040)</u>
Fund Balances at beginning of year restated	<u>52,102</u>	<u>63,048</u>	<u>69,690</u>	<u>14,976</u>	<u>(21,827)</u>	<u>177,989</u>
Fund Balances at end of year	<u>\$ 28,646</u>	<u>\$ 7,168</u>	<u>\$ 87,070</u>	<u>\$ 14,466</u>	<u>\$ (9,212)</u>	<u>\$ 128,138</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - MAJOR STREET FUND FOR THE YEAR ENDED JUNE 30, 2005

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
State Highway Act 51	\$ 32,000	\$ 33,018	\$ 1,018
Interest	700	553	(147)
Miscellaneous	-	69	69
	<u>32,700</u>	<u>33,640</u>	<u>871</u>
Expenditures:			
Public Works -			
Salaries	9,000	7,417	1,583
FICA	600	568	32
Hospitalization	5,000	8,017	(3,017)
Other fringe benefits	6,800	7,545	(745)
Supplies	1,500	4,570	(3,070)
Legal and professional	500	400	100
Insurance and bonds	500	329	171
Repairs and maintenance	3,000	18,326	(15,326)
Equipment rental	5,000	8,414	(3,414)
Miscellaneous	6,300	10	6,290
	<u>38,200</u>	<u>55,596</u>	<u>(17,396)</u>
Excess of revenues under expenditures	<u>(5,500)</u>	<u>(21,956)</u>	<u>(16,525)</u>
Other Financing Sources (Uses):			
Transfers in	8,500	-	(8,500)
Transfers out	<u>(2,500)</u>	<u>(1,500)</u>	<u>1,000</u>
	<u>6,000</u>	<u>(1,500)</u>	<u>(7,500)</u>
Excess of revenues an other sources over (under) expenditures and other uses	500	(23,456)	(24,025)
Fund Balance at beginning of year	<u>52,102</u>	<u>52,102</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 52,602</u>	<u>\$ 28,646</u>	<u>\$(24,025)</u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - LOCAL STREET FUND FOR THE YEARS ENDED JUNE 30, 2005

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Property taxes	\$ 25,887	\$ 22,449	\$(3,438)
Intergovernmental -			
State Highway Act 51	17,500	18,698	1,198
Interest	500	634	134
Other	-	70	70
	<u>43,887</u>	<u>41,851</u>	<u>(2,036)</u>
Expenditures:			
Public Works -			
Salaries	10,000	5,594	4,406
FICA	600	428	172
Hospitalization	5,000	8,017	(3,017)
Other fringe benefits	6,900	7,486	(586)
Supplies	1,000	4,473	(3,473)
Legal and professional	500	400	100
Insurance and bonds	500	391	109
Repairs and maintenance	20,000	3,810	16,190
Construction	-	58,000	(58,000)
Equipment rental	7,000	7,622	(622)
Miscellaneous	18,887	10	18,877
	<u>70,387</u>	<u>96,231</u>	<u>(25,844)</u>
Excess of revenues under expenditures	<u>(26,500)</u>	<u>(54,380)</u>	<u>(27,880)</u>
Other Financing Sources (Uses):			
Transfers in	28,000	-	(28,000)
Transfers out	<u>(1,500)</u>	<u>(1,500)</u>	<u>-</u>
	<u>26,500</u>	<u>(1,500)</u>	<u>(28,000)</u>
Excess of revenues an other sources over (under) expenditures and other uses	-	(55,880)	(55,880)
Fund Balance at beginning of year	<u>63,048</u>	<u>63,048</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 63,048</u></u>	<u><u>\$ 7,168</u></u>	<u><u>\$(55,880)</u></u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - COUNTY ROAD FUND FOR THE YEARS ENDED JUNE 30, 2005

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Intergovernmental -			
Local County Millage	\$ 36,500	\$ 42,450	\$ 5,950
Miscellaneous	-	4,200	4,200
	<u>36,500</u>	<u>46,650</u>	<u>5,950</u>
Expenditures:			
Public Works -			
Repairs and maintenance	36,500	12,438	24,062
Supplies	-	690	(690)
Contracted services	-	50	(50)
Capital outlay	-	16,092	(16,092)
	<u>36,500</u>	<u>29,270</u>	<u>7,230</u>
Excess of revenues over expenditures	<u>-</u>	<u>17,380</u>	<u>13,180</u>
Other Financing Uses:			
Transfers out	<u>36,500</u>	<u>-</u>	<u>(36,500)</u>
Excess of revenues and other financing sources over expenditures	36,500	17,380	(23,320)
Fund Balance at beginning of year	<u>69,690</u>	<u>69,690</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 106,190</u>	<u>\$ 87,070</u>	<u>\$(23,320)</u>

VILLAGE OF PORT SANILAC, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
MODIFIED CASH BASIS
BUDGET AND ACTUAL - SOUTH RAMP FUND
FOR THE YEARS ENDED JUNE 30, 2005

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Franchise fees	\$ 2,700	\$ 2,483	\$(217)
Interest	-	102	102
	<u>2,700</u>	<u>2,585</u>	<u>(115)</u>
Expenditures:			
Recreation and Cultural -			
Repairs and maintenance	1,400	-	1,400
Contracted Services	-	50	(50)
Miscellaneous	1,300	3,045	(1,745)
	<u>2,700</u>	<u>3,095</u>	<u>(395)</u>
Excess of revenues over (under) expenditures	-	(510)	(510)
Fund Balance at beginning of year	<u>14,976</u>	<u>14,976</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 14,976</u></u>	<u><u>\$ 14,466</u></u>	<u><u>\$(510)</u></u>

VILLAGE OF PORT SANILAC, MICHIGAN

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE MODIFIED CASH BASIS BUDGET AND ACTUAL - BARK SHANTY COMMUNITY CENTER FOR THE YEARS ENDED JUNE 30, 2005

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:			
Taxes	\$ 24,259	\$ 21,033	\$(3,226)
Interest	100	-	(100)
Rentals	4,500	5,035	535
	<u>28,859</u>	<u>26,068</u>	<u>(2,791)</u>
Expenditures:			
Recreation and Cultural -			
Salaries	3,500	2,824	676
FICA	-	216	(216)
Supplies	900	450	450
Contracted services	-	225	(225)
Utilities	5,500	6,764	(1,264)
Repairs and maintenance	1,200	761	439
Equipment rental	2,500	2,142	358
Miscellaneous	15,259	71	15,188
	<u>28,859</u>	<u>13,453</u>	<u>15,406</u>
Excess of revenues over expenditures	<u>-</u>	<u>12,615</u>	<u>12,615</u>
Fund Balance at beginning of year	30,213	30,213	-
Prior Period Adjustment	<u>(52,040)</u>	<u>(52,040)</u>	<u>-</u>
Fund Balance at beginning of year, restated	<u>(21,827)</u>	<u>(21,827)</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$(21,827)</u></u>	<u><u>\$(9,212)</u></u>	<u><u>\$ 12,615</u></u>

FIDUCIARY FUND

VILLAGE OF PORT SANILAC, MICHIGAN

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

CURRENT TAX COLLECTION FUND

FOR THE YEAR ENDED JUNE 30, 2005

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Assets:				
Cash and cash equivalents	\$ 102	\$ 335,782	\$ 335,782	\$ 102
Total Assets	<u>\$ 102</u>	<u>\$ 335,782</u>	<u>\$ 335,782</u>	<u>\$ 102</u>
Liabilities:				
Due to other funds	102	295,879	295,879	102
Due to component units	<u>-</u>	<u>39,903</u>	<u>39,903</u>	<u>-</u>
Total Liabilities	<u>\$ 102</u>	<u>\$ 335,782</u>	<u>\$ 335,782</u>	<u>\$ 102</u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the President and Members
Of the Village Council
Village of Port Sanilac, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Village of Port Sanilac, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Village's basic financial statements and have issued our report thereon, dated September 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Village of Port Sanilac, Michigan, prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Port Sanilac, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Port Sanilac, Michigan's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described as follows:

Controls over Utility Billings and Receivables

At the current time, the same individual inputs meter readings, mails out billings, collects cash receipts and credits customer accounts. We understand that in small offices it is very difficult to separate accounting functions.

We recommend that the duties be segregated as much as possible to improve controls.

Controls over Cash Accounts

At the current time cash is maintained by individuals separate from the Village offices for the DDA and Volunteer Firefighters fund along with the receipt and disbursement records. As a result, the internal control of having an individual perform bank reconciliations that does not also perform the duties of preparing the financial records is not in place.

We recommend that it be considered to have the bank reconciliations performed by someone in the Village office to allow for increased controls.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable insurance about whether the Village of Port Sanilac, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Village of Port Sanilac in a separate letter dated September 23, 2005.

This report is intended solely for the information and use of the management and the Village Council of Port Sanilac, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

September 23, 2005



MANAGEMENT LETTER

To the President and Members
of the Village Council
Village of Port Sanilac
Port Sanilac, Michigan

We have recently completed our audit of the basic financial statements (modified cash basis) of the Village of Port Sanilac for the year ended June 30, 2005. As noted in our *Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, we noted no matters involving the internal control over financial reporting and compliance and other matters, that we considered to be material weaknesses; however, there were two reportable conditions that were required to be reported under *Government Auditing Standards*.

The following recommendations are made for your consideration to enhance accounting and administrative controls:

Controls over the Budgeting Process.

As noted in the audited financial statements, some of the expenditures of the Village exceed the amount appropriated.

Michigan Public Act 621 of 1978 Sec. 18, as amended, provides that a Village shall adopt formal budgets for the General and Special Revenue Funds and shall not incur expenditures in excess of the amounts appropriated.

The Village has established procedures to detect such violations; however, there were instances where overages occurred.

Budget amendments should be made to cover any expenditures in excess of the amounts appropriated with all budget amendments approved by Village Council prior to the end of the fiscal year.

Controls over Allocation of Administrative Expenditures.

When preparing an allocation plan for central service costs, two specific items have to be identified – the cost that is central service in nature and the basis to be used to allocate the central service cost.

We noted that the Village allocates administrative expenditures; however, we believe that the method of allocation should be reviewed to determine that all the administrative costs that are central service in nature are included in the plan and the basis for allocation is readily available and verifiable.

If this cost allocation criteria is followed, the Village will have support that the costs charged to the various funds are reasonable and equitable.

These observations were considered in determining the nature, timing and extent of the audit tests applied on our audit of the June 30, 2005 financial statements. We have not considered internal control since the date of our report. It is always important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended for the information of the management and members of the Village Council and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation of the courtesy and cooperation extended to us during our examination. We are available to discuss any or all of these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart, Beauvoir Whipple".

September 23, 2005